

ROMANIA

**GUIDE TO THE LOCAL
PUBLIC FINANCE LAW**

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GUIDE FOR UNDERSTANDING THE LOCAL PUBLIC FINANCE LAW

The Local Public Finance Law no.189/14.10.1998, published in the Official Gazette of Romania no.404/22.10.1998, will come into force on January 1, 1998. This is the first time that issues strictly related to local public finances have been regulated distinctly in one piece of legislation. The law regulates issues concerned with local public finance, including:

The structure of the financial resources available to local public authorities and how the central government's resources are distributed to territorial administrative units.

The structure of expenditures that may be made by local governments.

The rules and procedures for managing local resources to make the most rational and efficient use of taxpayers' contributions.

The responsibilities of local public authorities regarding the management of local finances.

This law replaces current practices with new ones and introduces some completely new procedures. The law brings about a fundamental change in the responsibilities of local governments. This guide describes some of these changes.

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INTRODUCTION

This guide is designed to help local officials including elected officials, finance officers, and other administrators of counties, municipalities, and villages understand the Law on Local Public Finance and begin to apply it in 1999. The guide has been developed with the support of Romanian and American experts of the Urban Institute, the Ministry of Finance, the Department for Local Public Administration, the Municipal Federation of Romania, the Center of Studies and Programs for Development, and the Partners for Local Development Foundation.

The guide will be disseminated at a series of seminars in 1998. Copies also will be provided to local governments throughout Romania.

The guide highlights and describes changes and new aspects brought about by the Local Public Finance Law that may be confusing as local officials begin to implement the new law. It should be read in conjunction with the law. *The guide is neither intended to replace the directives or instructions issued by the Ministry of Finance nor to explain all the ramifications of the changes that will take place.* The guide will be most useful if you think about the impact that the law will have on your organization, the roles of those involved in finance and budgeting, your relationships with other levels of government, and the processes that are used to develop and execute the local budget.

The chapters in this guide follow the budget process. Each specific modification includes a reference to the respective article in the law. This allows the users of the guide to examine the law for further clarification or information.

Article 1 of the law opens with a glossary of terms and phrases that are used. Local elected officials, including counselors, mayors and deputy-mayors, may benefit greatly from reviewing these definitions.

Summary of Major Changes

The Local Public Finance Law, which goes into effect on January 1, 1999, will bring about a fundamental change in the financial and budgeting practices currently used by local officials. The law establishes the local budget as a distinct entity.

The law increases the autonomy of local governments. In doing so, the law gives local authorities more responsibility for local decision making and makes them more accountable to citizens. The law gives local and county councils the authority to establish, monitor, and collect revenues, as well as the responsibility to plan expenditures according to these revenues. Local governments have directly at their disposal more revenues, including a percentage of the shared wage tax. The criteria for allocating the shared amounts of state budget revenues will be provided to local officials, which enables them to calculate their own share and, after prioritizing expenditures, develop a balanced budget.

Local governments have greater authority over how their revenues are spent. Equalization grants from the state budget are not targeted for specific expenditures, leaving local officials discretion over how they are allocated. The only state transfers that have a special destination are those for investment projects to which the national government contributes and that are financed with foreign loans. No approval from higher levels of government is necessary for any investments made entirely from the local budget. Thus, local governments are able to establish whether the community is in greater need of service delivery improvements or capital investment. They are also authorized to take out loans from Romanian commercial banks or financial institutions without the approval of the national government. Local officials also have increased authority to transfer funds from one budget chapter to another. Finally, they may fund activities of benefit to the community that are carried out by a local entity and may contract with other organizations to provide public services.

With this additional autonomy comes additional responsibilities. Local governments are required to balance their own budgets, aligning their expenditures with the revenues they receive, and strict measures apply in situations in which the fiscal year ends in a deficit. Local governments also are solely responsible for repaying any loans they incur using local revenues as guarantees. A local government's debt service cannot exceed 20 percent of the current revenues, listed in annex 1 of the law, including wage tax shares.

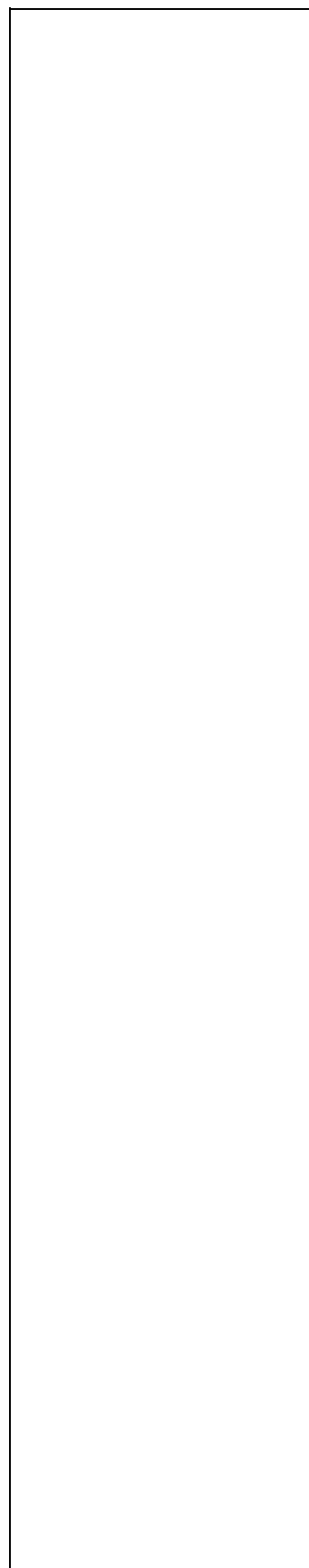
There are a number of measures in the law that encourage financial responsibility, long-term planning and sound financial practices. A flexible reserve fund structure allows local governments to keep end-of-the-year surpluses. The law also requires local governments to use territorial units of the state treasury for all transactions.

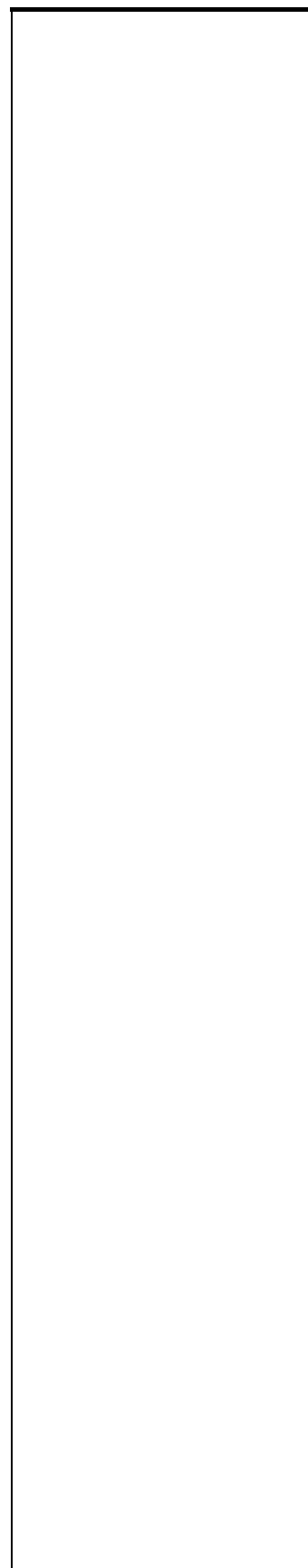
INCREASE AUTHORITY
<p>An increased percentage of revenues are considered own revenues, including local taxes and fees and the shared wage tax.</p> <p>More information on equalization grants is provided. The distribution criteria and the information used to establish them will be publicized before local budgets are developed.</p> <p>Local governments have more control over expenditures. State transfers with special destination are eliminated, with the exception of those for investments to which the national government contributes and that are financed with foreign loans.</p> <p>The national government has less control over investments. Ministry of Finance review of technical and economic documentation is no longer necessary for investment projects financed entirely from the local budget.</p> <p>Long-term budget planning is required. Local governments may keep budget surpluses. A three-year plan and a capital improvement plan are required.</p>

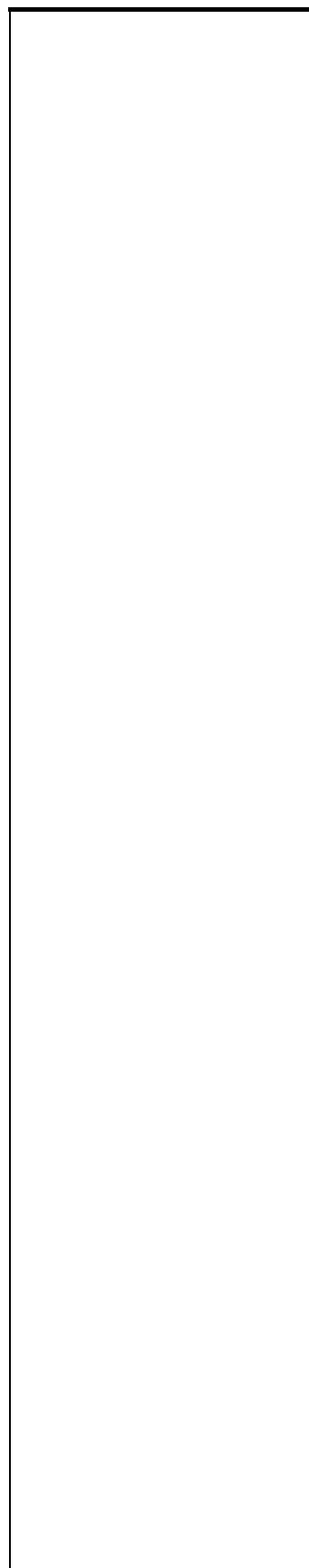
GROWING RESPONSIBILITY
<p>Expenditures must be covered by revenues, both on a short term (the current year) and on a longer term (three years).</p> <p>The budget must be balanced.</p> <p>Information must be provided to citizens. The draft budget must be made public, and citizens must be given the opportunity to comment on it.</p> <p>Public debt should be administered with caution. There is a debt ceiling 20 percent of the local government's total current revenues, including the shared wage tax. Local governments assume full responsibility for the debts they incur; domestic and foreign loans are not guaranteed by the central administration.</p>

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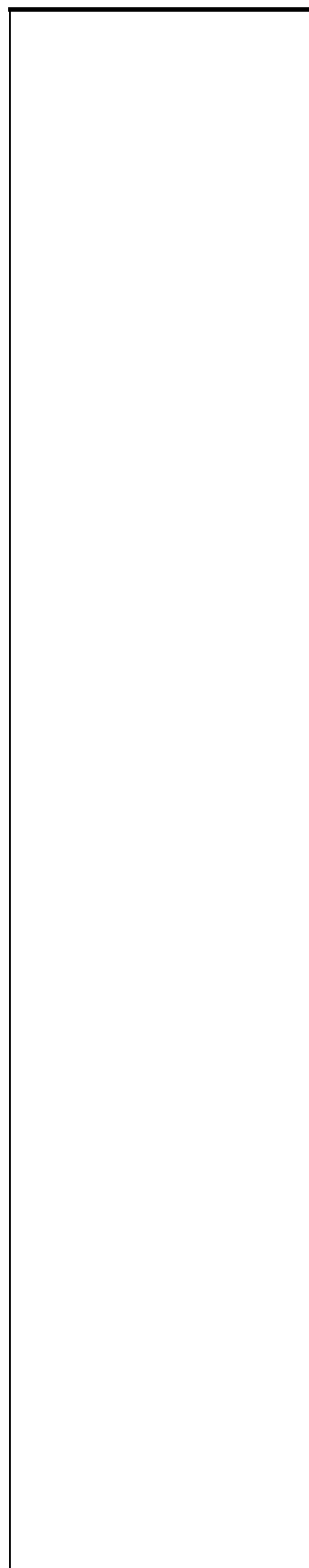
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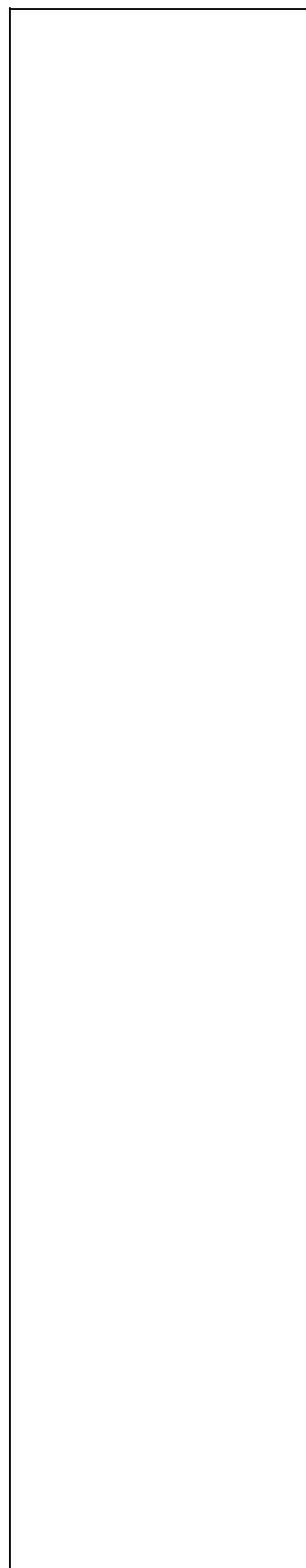


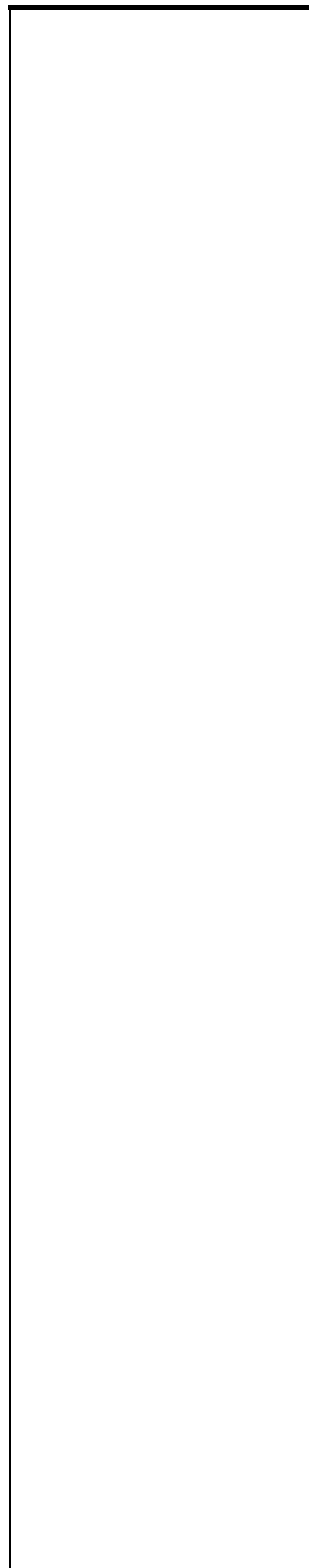
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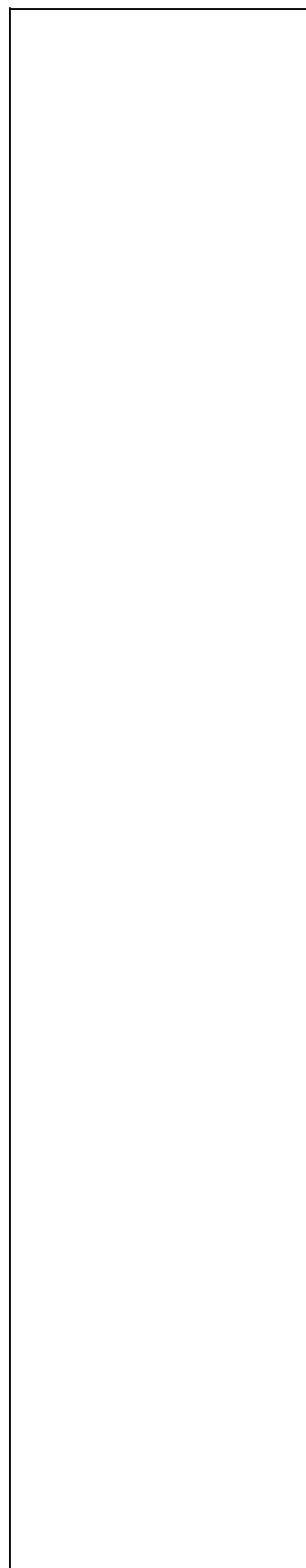


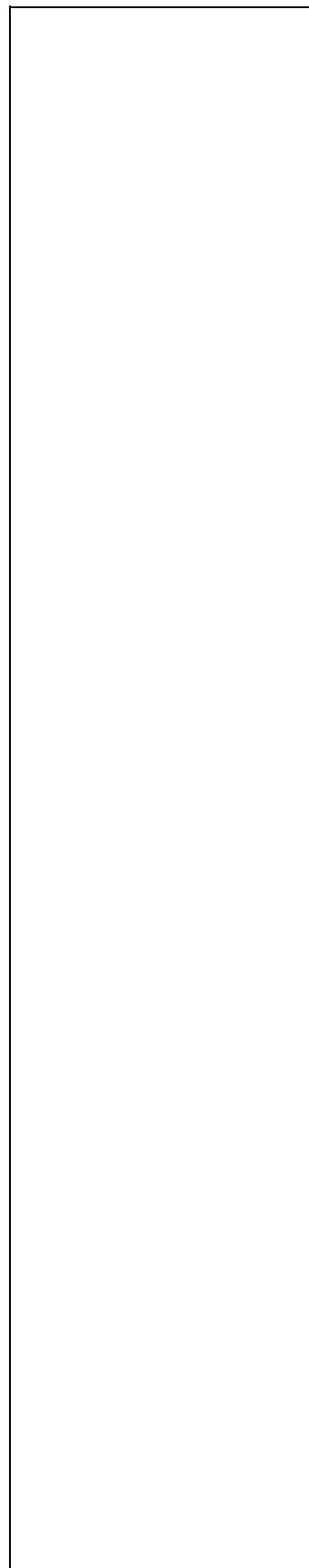


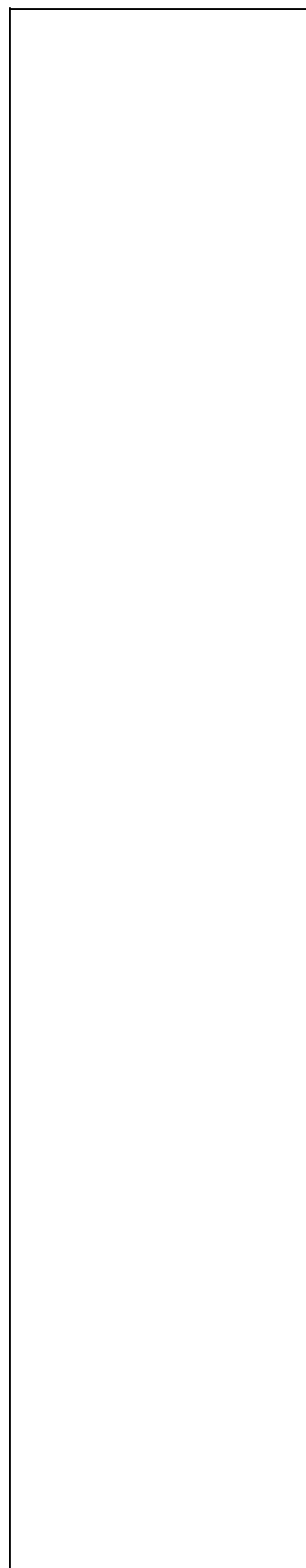
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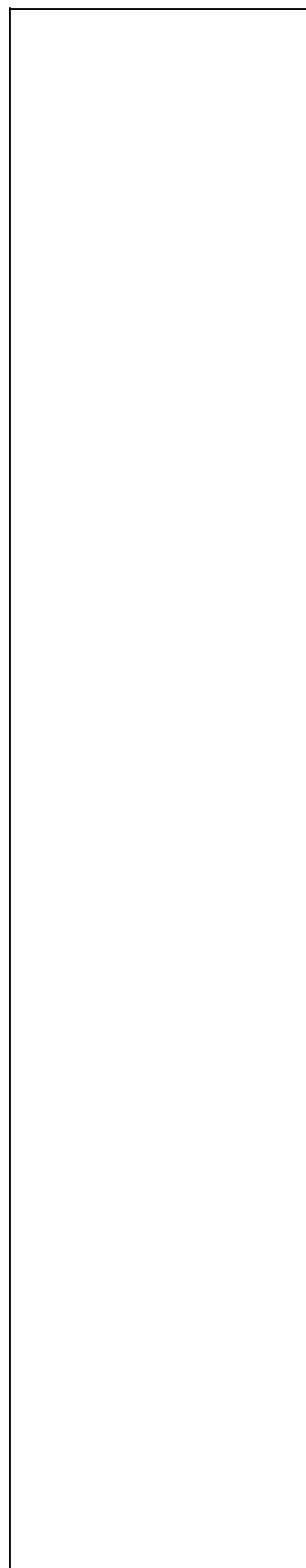












ANNEXES

STAGES OF BUDGET PREPARATION, APPROVAL AND EXECUTION

1. Main budget directors present balanced local budgets to DGFPFCS. They also develop and submit for council approval the annual execution account of the next year's budget.
2. DGFPFCS submits to the Ministry of Finance a summary of the draft budgets of counties and the Bucharest Municipality.
3. The Ministry of Finance examines the draft budgets' calculations of the shared amounts from revenues of the State Budget and of transfers with special destination.
4. Main budget directors' governments prepare and submit to DGFPFCS new proposals of the local draft budgets.
5. DGFPFCS submits to the Ministry of Finance a summary of the budgets of counties and the Bucharest Municipality.
6. The Ministry of Finance drafts the State Budget Law and submits a draft to the Romanian Government for approval. This draft law includes the limits of the shared amounts from state revenues and the transfers with a special destination to local budgets, county budgets and the Bucharest Municipality budget, as well as the distribution algorithm.
7. The Government approves the State Budget Law and submits it to Parliament.
8. If the State Budget Law is not approved by December 28, local governments use the budgets of the previous year.
9. Local draft budgets are published or made public within 15 days of the approval of the State Budget.
10. Citizens may file complaints up to 15 days after the budget is made public.
11. Local councils, county councils and the council of the Bucharest Municipality approve their budgets within 30 after the approval of the State Budget.

LOCAL AUTONOMY AND RESPONSIBILITY

The Local Public Finance Law gives increased autonomy to local governments. Autonomy means freedom of decision and action, as well as increased responsibility. Here are some of the changes brought about by the law that grant more local autonomy and increase the accountability of local governments to the public.

Local Autonomy	Responsibility
An increase in own revenues from local taxes and fees, wage tax shares, and additional shared revenues of the state and local budgets	To collect own revenues To establish some local taxes To finance activities previously subsidized from the state budget, including important activities such as social protection and carrying out public works and services of a local interest
The right to take loans without government guarantees for local public investments and services	Medium- and long-term loans are a burden on the entire community. The decision to get a loan is made through a vote of the local elected officials. To reimburse loans from own revenues
The right to sell or lease assets of the private domain	To accurately assess the legal situation of all assets in the private domain of the local government
The ability to make decisions regarding local development (especially concerning investments and public services)	To draw up a strategic (long-term) plan that helps guide the preparation of the budget and the three-year investment plan that is developed each year. To give priority to public investments that encourage local economic development and stimulate an increase in own revenues in the future. To engage in a process of making sound public investment decisions, from soliciting bids fairly to the quality and costs of the execution.
The ability to delegate the management of public services of a local interest to physical or legal persons The right to contract out local public works or services	To establish and monitor how local public services are provided in order to ensure quality service delivery
The ability to transfer funds from one budget chapter to another, with the exception of personnel The ability to keep end-of-the-year surpluses in a revolving fund, following the payment of all the obligations The ability to use the revolving fund for	To ensure efficient and accurate management of all expenditures To establish spending priorities

Local Autonomy	Responsibility
<p>investments</p> <p>The prerogative to enhance the sphere of activities financed through the local budget: services for child protection, religious and sports activities</p> <p>Growing authority in activities related to agriculture, including control over some services previously financed by the central government</p>	<p>To ensure funding sources for any new initiatives according to the principle of a balanced budget: no expenditure without a source of revenue</p>
<p>The authority to use the reserve fund for addressing the effects of natural disasters</p>	<p>To make immediate decisions that are appropriate for the specific situation</p>

ABROGATED LEGISLATION

The new law abrogates all the contrary provisions in the current legislation. In particular, this law abrogates the following laws and sections of law (Article 66, paragraph 2):

Chapter III, The drawing up, approval, execution and closing of the local budget execution and other provisions that refer to the local budgets in Law no. 72/1996 on public finances, published in the Official Gazette of Romania, part I, no. 152, of July 17, 1996.

Chapter VIII, The management of public finances, of the Law on local public administration no.69/1991, re-published in the Official Gazette of Romania, Part I, no. 79, of April 18, 1996.

The Decree of the State Council 151/1975 on the self-financing of some activities of state institutions, for the provisions referring to public institutions and activities of local subordination, published in the Official Bulletin, Part I, no. 130, of December 12, 1975.